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Testimony of State Comptroller Nancy Wyman
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Good afternoon Senator Prague, Representative Ryan and distinguished members of the Labor & Public Employees Committee. Thank you for the opportunity to testify on Senate Bill 1130, An Act Concerning A Post Employment Benefits Task Force.

I am testifying today, with all due respect to the Governor, in opposition to Senate Bill 1130 because I believe we have accomplished much of what this legislation seeks to do.

In preparation for the new reporting standards required by the Governmental Accounting Standards Board known as GASB 45 for the State's Other Post Employment Benefits liability commonly called OPEB liability I commissioned a preliminary actuarial study of the state's OBEP liability in 2005.

The GASB 45 standards for reporting OPEB liability were put into place because it was believed that governmental entities did not take into account, in their annual financial statements, the total long term cost of providing promised post-employment benefits. In addition, there was no reporting on the future financial impact of those benefits granted to active employees as a retirement benefit. GASB 45 changed the method of financial reporting for post employment benefits such as health and life insurance for active employees and current retirees. Please realize that this is not a new obligation, but a new requirement to report on that existing obligation.

GASB considered the post employment health benefits to be very similar to pension benefits and should be accounted for similar to the unfunded liability of the State Employee Retirement Fund or the Teachers Retirement Fund. In its simplest terms, GASB 45 requires all governmental entities to report on the future liability of the retiree health insurance benefits promised now over the life of the current and future retirees. GASB 43 establishes the accounting rules if a trust is created to fund all or some of those retiree health insurance benefits.

Last year I asked our current pension and health actuaries at Milliman to conduct a more comprehensive study of the State's unfunded OPEB liability. The Actuarial Subcommittee of the Retirement Commission was called upon to work to oversee this study. The Actuarial Subcommittee is comprised of an equal number of members representing management and labor with the Chairman of the Retirement Commission serving as the neutral member. The Subcommittee includes two actuaries, one hired by labor and one hired by management.

Milliman, is in the process of completing this study and a comprehensive actuarial report is scheduled for a final review by the Retirement Commission in March. The State's current unfunded OPEB liability is approximately $21 billion.

Bond counsel who works closely with both my agency, the Treasurer and OPM has begun including our preliminary estimate of the State's unfunded liability in our offering statement in the sale of bonds. My office has had additional discussions with the State Treasurer regarding addressing the unfunded liability and the establishment of the employee health care trust.

In December of last year, I sent a communication to the Governor and to the leadership of the Legislature informing them of the impending implementation of the requirements commonly known as GASB 45 and recommended steps to address the State's unfunded liability. I proposed establishing the employee health care trust and recommended that $100 million from the current year's surplus be placed in an irrevocable trust in addition to the annual appropriation for current year expenditures for retiree health.

I also recommended that the State deposit 10% of its surplus for each following fiscal year. The legislation I proposed will reduce the State's unfunded post employment benefit liability from $21 billion. It will improve the State's annual financial position as reflected in our annual financial statements and thereby, assist our bond rating. My office has been working over the last year to prepare for the reporting requirement which goes into effect in FY 2008.

The Governor responded to my proposal by recommending in her proposed budget an appropriation of $21 million dollars citing the figures prepared by our actuary to support her request. However, I do not believe that this funding level sufficiently reduces the unfunded liability. You need to establish a funding policy as opposed to a one time payment. Failing to put into place a long term funding strategy will negatively impact our bond rating and increase the future cost of state borrowing.